

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 22, 1942

To Mr. Goldenweiser

Subject: A Suggested War Wage Policy

From Kenneth Williams *KW*

Statement of Considerations

All groups recognize the compelling necessity for stabilizing wage rates if inflation is to be prevented and the war to be won. However, there are wide differences of opinion regarding the degree of stabilization required and the methods to be followed in obtaining stabilization

Some groups contend that because prices are frozen, wage rates should also be frozen. They argue that leaving wage rates unfrozen jeopardizes the commodity price ceilings and accords labor a privilege denied to the other agents of production.

Others claim that wage rates should be left free to be determined by collective bargaining and competitive bidding among employers. Patriotic appeals should be relied upon to achieve the amount of wage stabilization necessary. People in this group usually argue that fair treatment of workers requires that wage rates advance along with increases in living costs. They often insist that restraints should not be imposed until incomes of most workers are brought up to the levels indicated by family budget surveys as the amounts needed for decent family living.

Neither of these groups allow fully for all of the factors which must be considered in establishing a sound national policy. Those in favor of a wage freeze tend to overemphasize the effect of wage rate advances on total costs of production and on expansion of total consumer income. Higher wage rates often result in lower labor and total costs. Relative to the other factors which are increasing consumer income and widening the inflationary gap moderate advances in wage rates are not crucially important. These other factors are: overtime, upgrading, expansion of total employment, and migration from low to high wage rate industries.

Those in favor of a wage freeze also tend to underestimate the administrative problems involved and give too little weight to the adverse effect such a policy might have on morale, productive efficiency, the institution of collective bargaining, and the development of labor organizations. They do not realize fully the lack of uniformity in the wage rate structure and the competitive advantage a freeze would give to those employers who are currently paying high wages.

Most important, those advocating a wage freeze fail to see that effective price-fixing requires the ability to control supply. In the case of commodities supply can be controlled without serious infringe-

ment on the principles of democracy. In the case of labor, however, control of supply with wage rates frozen is likely to lead to conscription. Arbitrary labels such as "ceiling price \$ _____" can not be imposed on men as they can on commodities without the loss of the freedom for which men are fighting. A static, rigid wage policy in an economic situation which is basically dynamic is likely to create more problems than it solves.

On the other hand, those who argue that no restraints should be placed on wage rate advances fail to understand fully the drastic shift which has occurred from a situation of large surpluses of labor to one of widespread shortages of labor and to appreciate the danger to the war program which is inherent in a widening inflationary gap. Wages constitute too large a part of national income and of production costs for wage rates to increase sharply without disastrous consequences for labor and the nation. Marked advances in wage rates which are not offset by increased output per manhour, are no different in principle than the profiteering of businessmen who take advantage of the national crisis to demand exorbitant prices for scarce products.

The plain, blunt fact is that per capita consumption must be reduced to the levels of the depression bottom. It is economically impossible for real wages to keep up with costs of living. There is not enough labor, raw material, power, or transportation facilities to satisfy military requirements without drastic curtailment of civilian consumption. For money wages to try to keep up with costs of living is to invite dangerous reductions in living standards and possibly military defeat. For everyone to achieve a desirable standard of living before restraints are imposed is impossible. It has not been possible in any period of peace time prosperity to provide all workers with an adequate standard of living. It is out of the question to attempt to do so during total war. The hard fact is that even those with too little must accept less.

Statement of Policy

It is essential to find a middle way between rigid inequitable wage freezing and complete freedom of wage rate movement under the impact of almost unlimited war spending. Such a middle way to be acceptable to the democratic way of life and effective in maintaining and improving public morale and individual efficiency should include: (1) the right of free men to bargain collectively to determine the conditions under which they labor; (2) the right of labor organizations to participate in decisions affecting labor; (3) the flexibility necessary for adjustments in wage rates on the merits of individual situations within plants, between plants, within industries, and between industries deemed desirable to allocate workers to the most essential jobs, to obtain maximum output, to establish fair competition among employers for labor, to remove inequities, and to permit raising of substandard wages; (4) a basic agreement among workers and employers that it is against the national interest to seek or offer general increases in wage rates except in unusual circumstances.

Implementation of Policy

The OPA shall not permit higher costs occasioned by general wage rate advances agreed to after April 27, 1942, to constitute grounds for raising maximum price ceilings or obtaining subsidies, except in cases in which general wage rate advances have been certified by the Department of Labor, the War Production Board, or the War Labor Board as necessary to the national welfare.

The War Labor Board shall grant general wage rate advances only in instances in which in the judgment of the Board such advances are warranted because of inequities, substandard wage conditions, or are essential for the maintenance of morale and production.

In plants with war contracts in which no dispute is involved, notices of general wage rate advances shall be reported 30 days in advance of their going into effect to a committee composed of the Chairman of the War Manpower Commission, the Secretary of War, the Secretary of Navy, the Administrator of the War Shipping Administration, the Chairman of the War Production Board, and the Administrator of the Office of Price Administration. The committee shall have the right to veto any intended wage rate advances. The committee shall appoint an executive director selected from among the ranks of labor to receive such reports of intention and to make recommendations to the committee. Veto of wage rate advances by the committee will not prevent the issue from coming before the War Labor Board later if an industrial dispute develops.

Changes in living costs unless sufficient to create substandard conditions of employment are not to be considered grounds for wage rate increases. Where living costs are given consideration, they are to be related to weekly earnings, not to hourly or piece rates of pay. The fact that an individual employer is able to pay higher wage rates is not in itself justification for higher wage rates. In all cases, only changes since 1939 will be considered in questions involving living costs, man-hour productivity, etc.

As rapidly as possible the government agencies concerned shall undertake to obtain additional regional wage stabilization agreements for all important industries not yet covered by such agreements.